ARKK & Early '21 Winners Falling Out of Favor

The winning stocks of early 2021 are falling out of favor. Below we discuss how IPOs and SPACs started the year on a high note but are now grossly underperforming. Another widely popular investment at the start of the year was the ARK Innovation Fund (ARKK). Cathie Woods built the $18 billion ETF to invest in disruptive innovation.

At the beginning of 2021, investors were enamored with her fund pushing it up nearly 30% by mid-February. Since then, investors seem to be more discerning about Cathie Wood's high expectations. Despite the early gains, ARKK is down 25% for the year. The NASDAQ is up 30%, and Tesla is up nearly 50%. Her performance is even more troubling, considering that Tesla, accounting for about 10% of ARKK, is the ETF's largest holding.

[dmc]

What To Watch Today

Economy

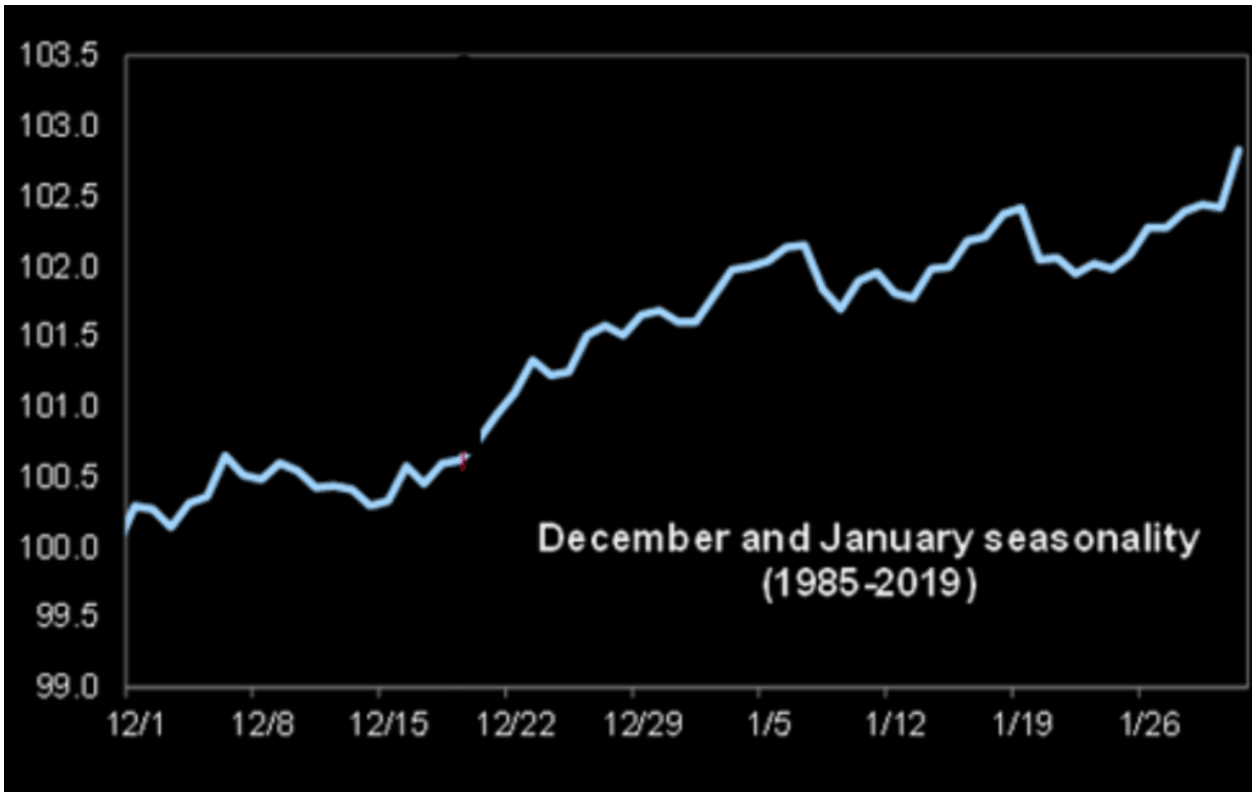
- 8:30 a.m. ET: **Initial jobless claims,** week ended Dec. 25. (206,000 expected, 205,000 during prior week)
- 8:30 a.m. ET: **Continuing claims**, week ended Dec. 18 (1.868 expected, 1.859 million during prior week)
- 9:45 a.m. ET: **MNI Chicago PMI**, December (62.0 expected, 61.8 in November)

Earnings

- *No notable reports scheduled for release*

S&P 500 Overbought & Pushing Resistance

As opposed to ARKK which is falling out of favor, the S&P 500 has continued to follow its seasonal trajectory. However, with December coming to a close, the early days of January, while still bullish, tend to be much less exciting.



However, as shown below, the market is now overbought, pushing up into heavy bull-trend resistance, and is nearly 10% above its 200-dma. Such is likely to limit upside as we head into 2022 so profit taking in the first 5-days of the new year may be warranted.

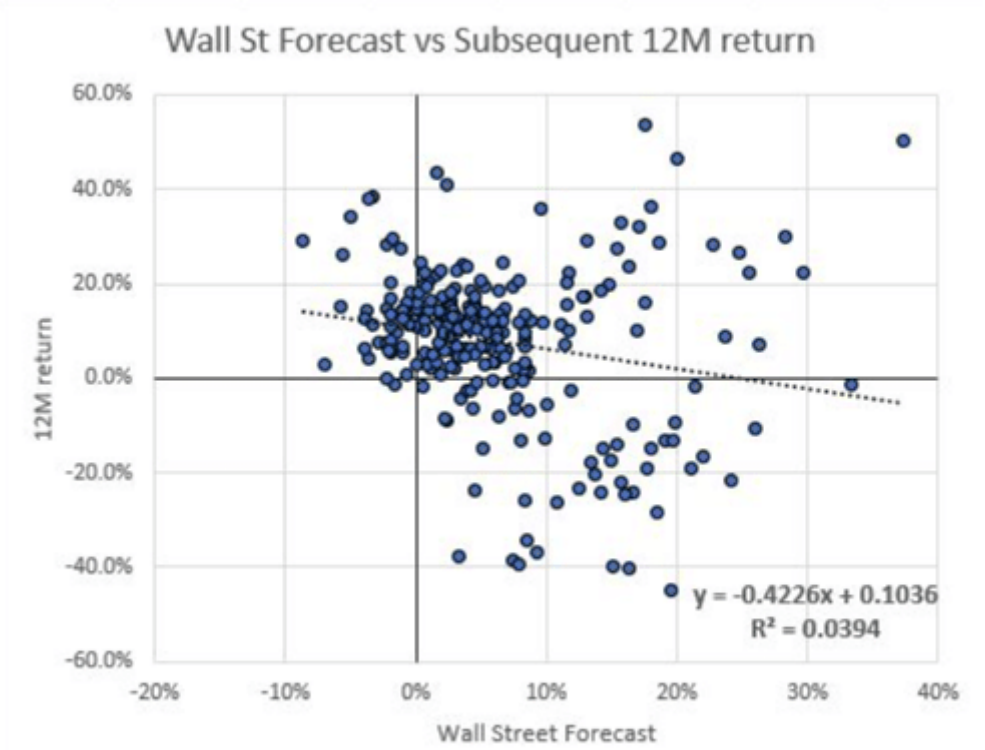
Disappointing IPOs and SPACs

Despite double-digit returns for most domestic stock indexes and a very speculative environment, IPOs and SPACs had a disappointing year. The first graph below, courtesy of the Wall Street Journal, shows that only a third of IPOs issued in 2021 are trading above their offer price. The second graph charts SPAK, an ETF holding SPAC securities. As shown, it is down about 25% from the start of the year and about 40% from its February highs.

SimpleVisor

Wall Street's Crystal Ball is Broken

This is the time of year where Wall Street banks publish their year-ahead outlooks. The graph below warns us not to pay any attention to them. With an R-squared of .0394, the correlation between forecasts and subsequent returns is essentially worthless.

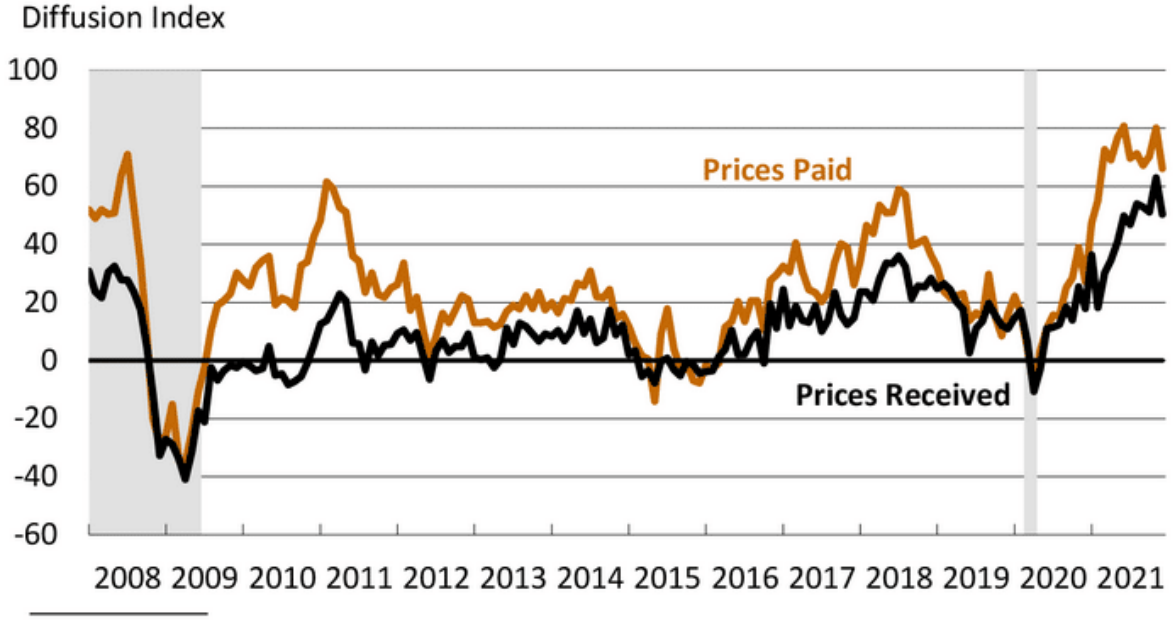


A Warning From Philly

The graph below shows the average of the forward-looking subcomponents of the Philadelphia Fed Manufacturing Index tends to lead the national manufacturing ISM Index by three months. The most recent survey shows growth in the Mid-Atlantic region continued in early December, but key indicators such as new orders and shipments fell to their lowest levels in 2021. Forward indicators also offer some concern, especially in light of the graph below. Per the report: "*The diffusion index for future general activity fell 10 points to 19.0, its lowest reading since February 2016.*" Also noteworthy in the report, the prices paid and received indexes fell, providing a little hope high inflation levels are abating. However, while lower, both indexes remain at ten-year highs, as shown in the second graph.

Chart 2. Current Prices Paid and Prices Received Indexes

January 2008 to December 2021



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

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